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COUNTY OF SANTA CLARA

Report to the Finance and
Government Operations Committee

For the Fiscal Year Ended June 30, 2008

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COUNTY OF SANTA CLARA
Report to the Finance and Government Operations Committee
For the Fiscal Year Ended June 30, 2008

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Finance and Government Operations Committee
County of Santa Clara
San Jose, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County of Santa Clara (the County) for the fiscal year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies listed as items 2008-A and 2008-B in the Schedule of Comments and Responses to be significant deficiencies in internal control. In addition, we noted other matters involving the internal control and its operation that we have reported to management as listed in the table of contents.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies listed as items 2008-A and 2008-B are not material weaknesses.

The County's written response to the findings identified in our audit is described in Schedule of Comments and Responses. We did not audit the County's responses and, accordingly, we express no opinion on them. In addition, we have already discussed our comments and recommendations with various County personnel, and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

In addition, we have included in this letter a report on communications with the Finance and Government Operations Committee (Committee) and the Board of Supervisors as required by auditing standards generally accepted in the United States of America.

The communication is intended solely for the information and use of the Finance and Government Operations Committee, Board of Supervisors, County management and others within the County and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & C Connell LLP
Certified Public Accountants

Walnut Creek, California
December 17, 2008

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
For the Fiscal Year Ended June 30, 2008

REQUIRED COMMUNICATIONS

Professional auditing standards require auditors to communicate with the audit committee, or its equivalent, on a number of subjects. The following information satisfies these requirements, and is solely for use of the Finance and Government Operations Committee and County management.

I. The Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated April 8, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting standards. Our audit of the financial statements does not relieve the County or management of their responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined on a test basis, evidence about the County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the County's compliance with those requirements.

II. Other Information in Documents Containing Audited Financial Statements

During the year, the County included audited financial statements in various debt offering documents (e.g., Official Statements). We do not have an obligation to perform any procedures to corroborate other information contained in such debt offering documents. We were not associated with and did not have any involvement with such documents. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the debt offering documents.

III. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the County in our meeting about planning matters during August 2008.

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
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IV. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract with the County, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 to the County's basic financial statements. With the exception of the item described below, no new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008.

As discussed in Note 1(o) to the County's basic financial statements, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and 27*.

During fiscal year ended June 30, 2008, significant amounts of the Santa Clara County Financing Authority's variable rate lease revenue bonds were refunded as a result of market turmoil in the financial market for auction rate securities (ARS). The Santa Clara County Financing Authority refunded \$255.9 million in ARS with the issuance of Series 2008 L and Series 2008 M lease revenue bonds and \$126.4 million in ARS with the issuance of Series 2008 A as discussed in Note 8.

We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates are as follows:

- Fair value of investments
- Estimated valuation allowance for losses on accounts receivable
- Estimated valuation on donated capital assets
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property
- Estimated contractual adjustments and bad debt allowances for patient accounts receivable
- Cost report settlements receivable and payable
- Unasserted claims and loss contingencies
- Accrual and disclosure of self insured claims liabilities
- Accrual and disclosure of compensated absences
- Pension and other postemployment benefit plans' employer and employee contribution requirements
- Amortization estimates for net pension asset including amortization methods

COUNTY OF SANTA CLARA
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IV. Significant Audit Findings (Continued)

Management's judgments and estimates were based on the following:

- Fair values of investments were based on quoted market prices.
- Estimated valuation allowance for losses on accounts receivable were based on historical experience.
- Estimated valuation on donated capital assets were based on its estimated historical cost.
- Useful lives for depreciable property were determined by management based on the nature of the capital asset.
- Estimated contractual adjustments and cost report settlements receivable and payables were based on prior cost report adjustments, previous regulatory settlements, and the potential future retrospective adjustments based on current laws and regulations.
- Estimated bad debt allowances for patient accounts receivable were based on historical experience.
- The liability for automobile liability, general liability, medical malpractice, and workers' compensation claims were based on actuarial evaluations using historical loss and other data.
- The liability for other claims was determined by attorney judgment about the ultimate outcome of the claim.
- Accrual and disclosure of compensated absences were based on accrued eligible hours of vacation at current pay rates for eligible employees.
- Pension and other post employment benefit plans' employer and employee contribution requirements were based on actuarially determined contribution rates.
- Amortization estimates for net pension asset were based on actuarially determined factors.

During our audit, we evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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IV. Significant Audit Findings (Continued)

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 17, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Finding or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
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CURRENT YEAR COMMENTS

Significant Deficiency #1 – Item 2008-A

Coordination of the County's Accounting Standard Implementations

The Santa Clara County Central Fire Protection District (Central Fire), a component unit of the County, engages another audit firm to complete its audit. Central Fire has a separate defined benefit postemployment healthcare plan from the County. Based on our review of the Central Fire's stand alone audited financial statements, we noted that the Central Fire did not implement Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, for the fiscal year ended June 30, 2008 along with the rest of the County. Although the County recorded its net other postemployment benefit obligations (OPEB) in accordance with GASB Statement No. 45 at June 30, 2008 for its employees covered by the defined benefit postemployment healthcare plan administered by the Employee Services Agency, the County under reported the Central Fire's OPEB by approximately \$12 million.

The County should work with Central Fire and all of their other auditors in coordinating the accounting standards to be implemented and presented in their stand alone financial statements at least annually so that these statements meet the County's comprehensive financial reporting requirements. In addition, the County should review the stand-alone draft financial reports to ascertain whether the information provided for consolidation into the County's Comprehensive Annual Financial Report is prepared in accordance with the required standards.

Management Response -

We concur with the recommendation, and will develop a checklist to help staff review the audit reports of all component units for compliance with GASB requirements. We will discuss all new reporting requirements with our external auditors at the 'Entrance Conference' held in May each year and also communicate those requirements to our component units and their independent auditors. The Controller-Treasurer Department routinely monitors all GASB pronouncements for any new accounting and reporting requirements or changes to the existing standards. We communicate those requirements to the departments and component units on a periodic basis. In addition, we provide training and information on major GASB pronouncements to departments and component units at our quarterly fiscal officers' meetings. Annually, we communicate the upcoming deadlines for new GASB requirements to independent auditors of all component units. The new checklist and annual discussion with external auditors will enhance our ability to ensure the component units' are coordinated with the County in its compliance with all GASB reporting requirements.

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
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Significant Deficiency #2 – Item 2008-B
Financial Reporting of Net Pension Asset

In May 2005, the State's Public Employees' Retirement System (PERS) agreed to restructure the County's pension contribution for the 2004-05 fiscal year-end and defer \$35 million of the scheduled payment. Since May 2005, interest in the amount of \$7.2 million has accumulated and was added to the liability. In fiscal year 2007-08, the County issued taxable pension funding bonds in order to refinance this obligation and to prepay other amounts arising from enhanced retirement benefits accruing to County employees totaling \$386.6 million.

During the fiscal year, the County did not reduce the deferred amount and cumulative accrued interest in the amount of \$42.2 million at June 30, 2008 against the prepayment of \$386.6 million, thereby overstating the County's net pension obligation and related net pension asset. This overstatement also caused the net pension asset amortization schedules to be incorrectly computed. As a result, an audit adjustment was recorded to reduce the County's obligation in the amount of \$42.2 million, reduce the net pension asset in the amount of \$29.7 million and increase net assets by \$12.5 million.

As the County enters into complex transactions, the Finance Agency staff should continue dialogue between affected parties (e.g., finance and benefits staff) and timely record these transactions in the accounting system to ensure accurate financing reporting.

Management Response -

We agree with the recommendation, and have already taken steps to improve communication among staff performing different aspects of certain complex financial transactions. For all future bond issuances, the debt administration staff will meet with the accounting and reporting staff to update on all pertinent financial aspects of the debt (issue or refunding) transaction upon completion of such transaction. This will ensure timely and accurate reporting of such transactions in the County's financial statements.

Other Comment #1 – Item 2008-C
Managing Investment's Interest Rate Risk

In accordance with Government Code Sections 53620-53622 and the County's investment policy, the Santa Clara County Retiree Healthcare Plan (Plan) investments, which are reported in an Internal Service Fund, may be invested in bonds that have a final maturity of 30 years or less from the purchase date and may have its fixed income holdings structured with sector concentrations comparable to those of the Lehman Aggregate Index. Additionally, the Board of Supervisors determined that up to 67% of the Retiree Healthcare Plan assets, excluding near-term liability payouts, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board of Supervisors. In April 2008, the County approved an Other Postemployment Benefit (OPEB) funding plan using the Plan's investments to help fund the County's Annual Required Contribution (ARC) and projecting full utilization of the Plan's investments by fiscal year 2015. At June 30, 2008, 21% of the Plan's investments in fixed income securities had maturities in excess of 10 years and 46% of the Plan's investments were in equities through mutual funds. These investments' maturities do not match the timing of the County's planned use of funds. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

We recommend the County re-evaluate its current Santa Clara County Retiree Healthcare Plan investment policy and re-assess the fixed-income investment maturities limits and the permitted types of equities held in light of the County's planned shorten utilization period. In addition, the County should continuously evaluate its composition of its Plan's investments with its risk tolerance and expected Plan's investment usage.

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
For the Fiscal Year Ended June 30, 2008

Other Comment #1 – Item 2008-C (Continued)

Management Response -

We do not believe that there is a need for the County to revise its investment policy for its Retiree Healthcare Plan as the policy is set in compliance with the California government code. We continually monitor the Retiree Health Fund's investment portfolio considering our timetable for full utilization of the Plan's investments by fiscal year 2015. Our staff routinely evaluates the portfolio for risk tolerance and expected usage. We do not believe that the County's intended investment objective for its Retiree Health Plan has changed significantly from the Board's decision to setup an OPEB plan, and to utilize the investments in its Retiree Health Fund by 2015. We believe that exiting the market at this time, liquidating all investments and converting to cash is not a prudent market timing strategy and could potentially cause a significant loss of equity. An immediate investment restructuring is not required as the intended objective of the plan assets has not materially changed. We will continue to routinely monitor the retiree health fund investments and periodically liquidate assets adequately to meet contribution requirements.

Other Comment #2 – Item 2008-D

Internal Control Monitoring

The County has a fiduciary responsibility as a steward of public funds. In order to fulfill this responsibility, the County has implemented internal controls that serve as the first line of defense in safeguarding assets. Additionally, these controls are designed to ensure: (1) effective and efficient operations, (2) reliable financial reporting and (3) compliance with applicable laws and regulations. The Committee on Sponsoring Organizations of the Treadway Commission (COSO) has established a nationally recognized framework for internal control in its *Internal Control – Integrated Framework* and its related *Guidance for Smaller Public Companies: Reporting on Internal Controls over Financial Reporting*. The COSO framework establishes five elements of internal control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. Risk Assessment and Monitoring are integral parts of internal control and management should periodically evaluate the risks and monitor the changes facing the County. This process involves evaluating both previously identified risks and potential new risks and providing assurance that (1) controls are designed properly to address significant risks and (2) controls are operating effectively.

During FY 2008, the County took an initial step to align its system of internal controls with the new auditing standards by reviewing and formally documenting the design of the County's significant internal control cycles in order to evaluate its design. We recommend the County continue its progress in evaluating the effectiveness of the internal control design by monitoring and testing the systems of internal controls in place.

Management Response -

We agree with the recommendation. The Controller-Treasurer Department is currently developing a plan that will include a detailed task list and estimated resources needed for this countywide project. We plan to lead a countywide effort in documenting and evaluating effectiveness of the County's systems of internal controls. The major effort will be to integrate internal control processes into a comprehensive mapping of cash receipts and cash disbursements cycles. The core documentation for controls will reside in a central repository with links to documentation that resides outside of the central repository. There will be clear accountability for updating the documentation of the internal control processes and ownership of the internal control processes themselves.

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
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STATUS OF PRIOR YEAR COMMENTS

Comment: FY 2007-A

Internal Controls Over Medi-Cal Reserve Analysis

Condition/Effect:

During our audit we noted that the SCVHHS's Medi-Cal reserve analysis included a calculation error caused by the unavailability of archived data resulting in an overstatement of the contractual allowances in the amount of \$9.6 million.

Recommendation:

We recommend the SCVHHS's Finance Department improve its archiving processes and related controls to ensure that work papers are readily available for use by them as well as the external auditors.

Status:

Corrected.

Comment: FY 2007-B

Review of the SCVHHS Enterprise Fund Financial Statements

Condition/Effect:

During our audit we noted that interfund transfers and investments earnings transactions and/or balances were recorded differently in the County's and SCVHHS's general ledger system.

Recommendation:

We recommend the SCVHHS's Finance Department provide a draft of the financial statements to the County's Controller Office for review prior to the submission to its external auditors to improve controls over the County's financial reporting process. In addition, the SCVHHS Finance should be permitted to adjust SAP summary balances up to the date its financial statements are provided to the County's General Accounting Unit.

Status:

Corrected.

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
For the Fiscal Year Ended June 30, 2008

Comment: FY 2007-C

Trust Fund Determination

Condition/Effect:

During our audit we noted the following related to the County's trust fund determination:

- The County reversed its prior Criminal Justice trust fund determination and approved a one-time resource transfer in the amount of \$2.0 million from the Criminal Justice Fund to the General Fund for the operation and maintenance of the Criminal Justice Building.
- The County misclassified the Mental Health Proposition 63 fund as a trust fund instead of a governmental fund and subsequently recorded a \$14.2 million adjustment to recognize this revenue in the June 30, 2007 financial statements.

Recommendation:

We recommend the County periodically review its trust fund classifications in order to evaluate the propriety of inclusion or exclusion of the financial results with the General Fund.

Status:

Corrected.

Comment: FY 2007-D

Loans Receivable Analysis

Condition/Effect:

The financial reporting and accounting systems functions of the Office of Affordable Housing (Office) substantially rely on one individual to effectively perform necessary daily functions. During our audit, we noted that the Office had adjusted the loans receivable beginning balance in the amount of \$250,000 and was unable to timely complete and submit the detail loan schedule documenting this change to the Controller's Office. In addition, this loan change did not include an adequate review and approval.

Recommendation:

We recommend the Office evaluate appropriate staffing for the Office's functions and establish adequate review and approval processes. In addition, we recommend that the Office formally document its procedures related to the year-end analysis and financial reporting process to minimize the potential effects of "lost" knowledge due to unplanned turnover.

Status:

Corrected.

COUNTY OF SANTA CLARA
Report to Finance and Government Operations Committee
For the Fiscal Year Ended June 30, 2008

Comment: FY 2007-E

Risk Assessment and Monitoring Over Financing Reporting

Condition/Effect

The County has a fiduciary responsibility as a steward of public funds. In order to fulfill this responsibility, the County has implemented internal controls that serve as the first line of defense in safeguarding assets. Additionally, these controls are designed to ensure: (1) effective and efficient operations, (2) reliable financial reporting and (3) compliance with applicable laws and regulations.

Recommendation:

We recommend that the County perform a comprehensive risk assessment analysis and document its risk assessment policies and procedures for each fiscal year.

Status:

In progress. See Comment FY 2008-D.

COUNTY OF SANTA CLARA
 Report to Finance and Government Operations Committee
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SUMMARY OF UNCORRECTED FINANCIAL STATEMENTS MISSTATEMENTS

PAGE #	Opinion Unit	Adjustment Description	Proposed Journal Entry	
			Debit	Credit
1	Government-Wide Governmental Activities	Expenses - Public Safety Net Other Postemployment Benefit Obligation <i>To record the estimated OPEB obligation for the Central Fire District at 2008.</i>	\$ 12,000,000	\$ 12,000,000
2	General Fund	Net Asset Revenue <i>To adjust the net asset balance due to prior year revenue accrual error.</i>	\$ 1,969,251	\$ 1,969,251
3	Government-Wide Governmental Activities	Capital grant and contributions - Recreation Net assets <i>To record land donation received by the County in prior years.</i>	\$ 5,000,000	\$ 5,000,000
4	Nonmajor Governmental Fund	Capital Outlay Accounts Payable <i>To record the capital project expenditures incurred during the current year.</i>	\$ 1,345,973	\$ 1,345,973
4.1	Government-Wide Governmental Activities	Nondepreciable capital assets Accounts Payable <i>To record additions to construction in process incurred during the current year.</i>	\$ 1,345,973	\$ 1,345,973



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The Honorable Members of the
Board of Supervisors of the
County of Santa Clara
San Jose, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County of Santa Clara, California, (the County), as of and for the fiscal year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 17, 2008. Our report was modified to include a reference to other auditors. Our report also includes an explanatory paragraph indicating that the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and 27*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the FIRST 5 Santa Clara County; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and Los Altos Hills County Fire District (collectively, "Fire Districts"), as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies as listed as items 2008-A and 2008-B in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter dated December 17, 2008.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Supervisors, County management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Walnut Creek, California
December 17, 2008



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The Honorable Members of the
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the County of Santa Clara, California (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended \$223,757,449 in federal awards, which is not included in the schedule of expenditures of federal awards (SEFA) for the fiscal year ended June 30, 2008. Our audit, described below, did not include the operations of the Housing Authority because we audited and reported on the Housing Authority in accordance with OMB Circular A-133 as a separate engagement.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in item 2008-1, in the accompanying schedule of findings and questioned costs, the County did not comply with the requirement regarding program income that is applicable to its HOME Investment Partnerships Program (CFDA No. 14.239). Compliance with such requirement is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. Also, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-2, 2008-3, 2008-4, and 2008-5.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.


Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and one deficiency that we consider to be a material weakness.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying federal awards schedule of findings and questioned costs as items 2008-1, 2008-2, 2008-3, 2008-4, and 2008-5 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 2008-1 to be a material weakness.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Supervisors, County management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants
Walnut Creek, California

March 20, 2009

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COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Pass Through Entity/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures
U.S. Department of Agriculture			
<u>Passed Through State Department of Social Services</u>			
Food Stamps	10.551	43-10439	\$ 78,296,179
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	04-35461	93,270
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	04-35881	1,041,070
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	07-65337	277,581
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	07-65348	20,000
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	n/a	16,211,955
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			17,643,876
Subtotal Pass Through State Department of Social Services			95,940,055
<u>Passed Through State Department of Health Services</u>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05-45797	2,610,468
<u>Passed Through State Department of Agriculture</u>			
Inspection Grading and Standardization	10.162	8415	1,528
<u>Passed Through State Department of Education</u>			
School Breakfast Program	10.553	43-10439-6066435-01	255,050
National School Lunch Program	10.555	43-10439-6066435-01	383,328
Subtotal Child Nutrition Cluster			638,378
Subtotal Passed Through State Department of Education			638,378
Total U.S. Department of Agriculture			99,190,429
U.S. Department of Housing and Urban Development			
<u>Direct Programs</u>			
Community Development Block Grants/Entitlement Grants	14.218	n/a	2,191,012
HOME Investment Partnerships Program	14.239	n/a	9,711,594
Total U.S. Department of Housing and Urban Development			11,902,606
U.S. Department of Interior			
<u>Passed Through State Department of Parks and Recreation</u>			
Cooperative Endangered Species Conservation	15.615	P0330012	369,049
Technical Preservation Services	15.915	06-01549	233,427
Total U.S. Department of Interior			602,476
U.S. Department of Justice			
<u>Direct Programs</u>			
Juvenile Accountability Incentive Block Grants	16.523	n/a	160,687
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	n/a	412,026
Community Capacity Development Office	16.595	n/a	135,483
State Criminal Alien Assistance Program	16.606	n/a	1,527,544
Edward Byrne Memorial Justice Assistance Grant Program	16.738	n/a	338,928
Subtotal Direct Programs			2,574,668
<u>Passed Through State Office of Emergency Services</u>			
Crime Victim Assistance	16.575	VW 07260430	294,306
Building Our Leaders For Tomorrow	16.609	US 05020430	6,523
Edward Byrne Memorial Justice Assistance Grant Program	16.738	MS 07060430	177,169
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC 07180430	563,154
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			740,323
Subtotal Passed Through State Office of Emergency Services			1,041,152
Total U.S. Department of Justice			3,615,820

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures
U.S. Department of Transportation			
<u>Direct Program</u>			
Airport Improvement Program	20.106	n/a	1,585,140
<u>Passed Through State Department of Transportation</u>			
Highway Planning and Construction	20.205	STPLH 5937(102)	1,232,244
Highway Planning and Construction	20.205	STPL 5937 (101)	81,313
Highway Planning and Construction	20.205	STPL 5937(108)	697,237
Highway Planning and Construction	20.205	STPLZ 5937(033)	714,789
Highway Planning and Construction	20.205	BRLO 5937 (047)	45,875
Highway Planning and Construction	20.205	BRLO 5937 (046)	45,928
Highway Planning and Construction	20.205	STPLZ-5937(087)	384,522
Highway Planning and Construction	20.205	STPLZ-5937(088)	601,775
Highway Planning and Construction	20.205	BHLO 5937(096)	726
Highway Planning and Construction	20.205	BRLS 5937(077)	1,510,254
Highway Planning and Construction	20.205	STPLZ-5937 (033)	348,911
Highway Planning and Construction	20.205	BHLO 5937(093)	31,336
Highway Planning and Construction	20.205	BRLO 5937(106)	4,339
Highway Planning and Construction	20.205	STPLZ 5937(058)	125,471
Highway Planning and Construction	20.205	STPLER -5937(099)	100,000
Highway Planning and Construction	20.205	BRL-NBIS (508)	70,293
Subtotal Passed Through State Department of Transportation			5,995,013
<u>Passed Through State Department of Parks and Recreation</u>			
Recreational Trails Program	20.219	RT-43-005	153,000
Recreational Trails Program	20.219	RT-43-006	67,353
Subtotal Passed Through State Department of Parks and Recreation			220,353
<u>Passed Through State Office of Traffic Safety</u>			
State and Community Highway Safety	20.600	AL0632	102,558
State and Community Highway Safety	20.600	AL0668	111,179
State and Community Highway Safety	20.600	CT080102/238/396	13,055
State and Community Highway Safety	20.600	AL0807	357,368
Subtotal Passed Through State Office of Traffic Safety			584,160
Total U.S. Department of Transportation			8,384,666
Institute of Museum and Library Services			
<u>Passed Through California State Library</u>			
Grants to States	45.310	n/a	4,860
Total Institute of Museum and Library Services			4,860
Environmental Protection Agency			
<u>Passed Through California Environmental Protection Agency - Air Resources Board</u>			
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	OS-83137601-1	177,029
Leaking Underground Storage Tank Trust Fund Program	66.805	07-016-250-0	95,000
Total Environmental Protection Agency			272,029
U.S. Department of Education			
<u>Passed Through State Department of Alcohol and Drug</u>			
Safe and Drug Free Schools and Communities State Grants	84.186	n/a	116,496
Total U.S. Department of Education			116,496

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures
U.S. Department of Health and Human Services			
<u>Direct Programs</u>			
Consolidated Health Centers (Community Health Center, Migrate Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	n/a	945,144
Enhance the Safety of Children Affected By Parental Methamphetamine or Other Substance Abuse	93.087	n/a	159,245
Subtotal Direct Programs			1,104,389
<u>Passed Through Council on Aging Silicon Valley</u>			
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	AP-0708-10	1,164,424
Nutrition Service Incentive Program	93.053	AP-0708-10	710,319
Subtotal Aging Cluster			1,874,743
<u>Passed Through State Department of Education</u>			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	43-W038	272,552
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	43-2243	1,806,965
Subtotal Passed Through State Department of Education			2,078,617
<u>Passed Through State Department of Health Services</u>			
Public Health and Social Services Emergency Fund	93.003	n/a	2,287,175
Public Health Emergency Preparedness	93.069	n/a	376,799
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	n/a	486,308
Projects for Assistance in Transition from Homelessness (PATH)	93.150	n/a	230,287
Immunization Grants	93.268	07-65249	951,451
Centers for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	n/a	1,303,585
Refugee and Entrant Assistance Discretionary Grants	93.576	n/a	25,674
Refugee and Entrant Assistance Discretionary Grants	93.576	07-43-90841-01	35,296
Refugee and Entrant Assistance Discretionary Grants	93.576	07-43-90840-1	310,236
Refugee and Entrant Assistance Discretionary Grants	93.576	07-43-9460-1A	119,609
Subtotal Refugee and Entrant Assistance Discretionary Grants			490,815
Medical Assistance Program (Medicaid: Title XIX)	93.778	n/a	4,394,917
Grants for Training in Primary Care Medicine and Dentistry	93.884	PS0423	631,414
HIV Emergency Relief Project Grants	93.914	n/a	2,373,482
HIV Care Formula Grants	93.917	94-19897 A-1	371,203
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	n/a	713,563
HIV Prevention Activities Health Department Based	93.940	n/a	1,603,781
Public Health Traineeships	93.964	2007-43 MCH	124,542
Public Health Traineeships	93.964	2007-43 BIH	217,499
Public Health Traineeships	93.964	2007-43 AFLP	236,826
Subtotal Public Health Traineeships			578,867
Maternal and Child Health Services Block Grant to the States	93.994	2007-43 BIH	340,123
Maternal and Child Health Services Block Grant to the States	93.994	2007-43 AFLP	90,691
Maternal and Child Health Services Block Grant to the States	93.994	2007-43 MCH	322,928
Subtotal Maternal and Child Health Services Block Grant to the States			753,742
Subtotal Passed Through State Department of Health Services			17,547,489
<u>Passed Through State Department of Child Support Services</u>			
Child Support Enforcement	93.563	IV-356	25,133,084

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
<u>Passed Through State Department of Social Services</u>			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	n/a	544,844
Promoting Safe and Stable Families	93.556	n/a	1,093,899
Temporary Assistance for Needy Families (TANF)	93.558	n/a	124,808,892
Refugee and Entrant Assistance State Administered Programs	93.566	n/a	885,911
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	n/a	440,980
Child Welfare Services State Grants	93.645	n/a	1,378,728
Foster Care Title IV-E	93.658	n/a	41,914,969
Adoption Assistance	93.659	n/a	11,069,061
Social Services Block Grant	93.667	n/a	9,303,013
Chafee Foster Care Independence Program	93.674	n/a	504,035
Medical Assistance Program (Medicaid: Title XIX)	93.778	n/a	55,536,437
Subtotal Passed Through State Department of Social Services			247,480,769
<u>Passed Through State Department of Mental Health</u>			
Block Grants for Community Mental Health Services	93.958	n/a	687,217
<u>Passed Through State Department of Alcohol and Drug</u>			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	n/a	11,272,305
Total U.S. Department of Health and Human Services			307,178,613
U.S. Department of Homeland Security			
<u>Passed Through the City of San Jose</u>			
Urban Areas Security Initiative	97.008	n/a	566,230
<u>Passed Through the City and County of San Francisco</u>			
Urban Areas Security Initiative	97.008	2006-0071	245,865
<u>Passed Through the State Office of Emergency Services</u>			
Homeland Security Grant Program	97.067	2006-0015	1,445,372
Homeland Security Grant Program	97.067	2006-0071	1,590,932
Homeland Security Grant Program	97.067	2007-8	823,283
Homeland Security Grant Program	97.067	2005-0015	9,859
Subtotal Homeland Security Grant Program			3,869,446
Pre-Disaster Mitigation Competitive Grants	97.017	OES # PJ55	600,718
Pre-Disaster Mitigation Competitive Grants	97.017	OES # PJ37	1,710,092
Pre-Disaster Mitigation Competitive Grants	97.017	OES # PJ45	5,295
Subtotal Pre-Disaster Mitigation Competitive Grants			2,316,105
Emergency Management Performance Grants	97.042	2006-GR-0008	250,987
Emergency Management Performance Grants	97.042	2007-6	248,225
Subtotal Emergency Management Performance Grants			499,212
Buffer Zone Protection Program	97.078	2005-GR-15-0068	174,332
Subtotal Passed Through State Office of Emergency Services			6,859,095
Total U.S. Department of Homeland Security			7,671,190
Total Expenditures of Federal Awards			\$ 438,939,185

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2008

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the County of Santa Clara, California (the County), for the fiscal year ended June 30, 2008, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the County's basic financial statements. In addition, the outstanding balance of prior year's loans that have significant continuing compliance requirements has been included in the total federal expenditure for the HOME Investment Partnerships program (note 7) and the total federal expenditures for the State Criminal Alien Assistance Program (SCAAP) includes the awarded funds as a one-time payment that is expended as of the date receipt pursuant to the *SCAAP Guidance and Application*.

Note 3 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the County's basic financial statements as expenditures in the General Fund and nonmajor special revenue funds and as expenses in the Airport enterprise fund.

Note 4 – Housing Authority (Discrete Component Unit) Federal Expenditures

The Housing Authority federal expenditures are excluded from the SEFA because the Housing Authority's federal expenditures are separately audited. Expenditures for the programs of the Housing Authority listed below are taken from the separately issued single audit report. The programs of the Housing Authority are as follows:

Federal Grantor/Program Title	CFDA Number	Grantor Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>Pass-through the City of San Jose:</i>			
Community Development Block Grants/Entitlement Grants	14.218	HTF-07-006	\$ 59,337
<i>Direct:</i>			
Shelter Plus Care	14.238	n/a	2,477,637
Public and Indian Housing	14.850	n/a	1,301,830
Section 8 Project Based Cluster:			
Lower Income Housing Assistance Program - Section 8 New			
Construction/Substantial Rehabilitation -Huff Gardens	14.182	n/a	339,035
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	n/a	837,451
Lower Income Housing Assistance Program - Section 8			
Moderate Rehabilitation	14.856	n/a	1,200,907
Subtotal Section 8 Project Based Cluster			<u>2,377,393</u>
Section 8 Housing Choice Vouchers	14.871	n/a	216,680,514
Public Housing Capital Fund	14.872	n/a	860,738
Total Federal Expenditures			<u>\$ 223,757,449</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued) For the Fiscal Year Ended June 30, 2008

Note 5 – Food Stamps

Food stamps expenditures of \$78,296,179 represent the face value of food stamps distributed to program participants. They do not represent cash expenditures in the County's basic financial statements for the fiscal year ended June 30, 2008.

Note 6 – Amounts Provided to Subrecipients

Of the federal expenditures presented in the SEFA, the County provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 67,318
State Administrative Matching Program for the Supplemental Nutrition Assistance Program	10.561	330,107
Community Development Block Grants/Entitlement Grants	14.218	1,364,386
HOME Investment Partnerships Program	14.239	392,855
Juvenile Accountability Incentive Block Grants	16.523	81,059
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	412,026
Edward Byrne Memorial Justice Assistance Grant Program	16.738	686,635
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	177,029
Leaking Underground Storage Tank Trust Fund Program	66.805	95,000
Safe and Drug Free Schools and Communities _State Grants	84.186	73,307
Special Programs for the Aging _Title III, Part C _Nutrition Services	93.045	1,164,424
Nutrition Services Incentive Program	93.053	710,319
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	25,000
Projects for Assistance in Transition from Homelessness (PATH)	93.150	230,287
Substance Abuse and Mental Health Services _Projects of Regional and National Significance	93.243	182,330
Immunization Grants	93.268	245,482
Center for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	622,102
Temporary Assistance for Needy Families (TANF)	93.558	4,854,549
Refugee and Entrant Assistance _State Administered Programs	93.566	154,727
Refugee and Entrant Assistance _Discretionary Grants	93.576	23,026
Refugee and Entrant Assistance _Targeted Assistance Grants	93.584	352,558
Chafee Foster Care Independent Living	93.674	423,093
Grants for Training in Primary Care Medicine and Dentistry	93.884	265,789
HIV Emergency Relief Project Grants	93.914	882,383
HIV Care Formula Grants	93.917	307,702
HIV Prevention Activities _Health Department Based	93.940	295,665
Block Grants for Community Mental Health Services	93.958	85,861
Block Grants for Prevention and Treatment of Substance Abuse	93.959	4,809,514
Public Health Traineeships	93.964	236,826
Maternal and Child Health Services Block Grant to the States	93.994	79,045
Urban Area Security Initiative	97.008	53,500
Homeland Security Grant Program	97.067	469,860
Buffer Zone Protection Program	97.078	99,287
Total		<u>\$ 20,253,051</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Note 7 – Loans Outstanding

The County participates in certain federal award programs that sponsor revolving loan programs, which are administered by the County. These programs maintain servicing and trust arrangements with the County to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the HOME Investment Partnerships Program (HOME). During the fiscal year 2008, the County incurred \$240,000 in expenditures related to new loans under this program. As of June 30, 2008, the total amount of HOME loans outstanding subject to continuing compliance requirements was \$9,441,256, which is included in the SEFA.

Note 8 – California Department of Aging (CDA) Grant

The terms and conditions of agency contracts with CDA require agencies to display state-funded expenditures discretely along with the related federal expenditures. The following schedule is presented to comply with these requirements.

Federal Grantor Pass-through Grantor Program Title	CFDA Number	Grant/ Contract Number	Expenditures	
			State	Federal
U.S. Department of Health & Human Services				
<i>Pass through the Council on Aging Silicon Valley</i>				
Special Programs for the Aging_ Title III, Part C				
Nutrition Services	93.045	AP-0708-10	\$ 153,204	\$ 1,164,424
<i>Pass through the Council on Aging Silicon Valley</i>				
Nutrition Services Incentive Program	93.053	AP-0708-10	-	710,319
Total Expenditures of State and Federal Awards			<u>\$ 153,204</u>	<u>\$ 1,874,743</u>

Note 9 – Program Totals

The SEFA does not summarize programs that receive funding from various funding sources or grants. The following table summarizes these programs by CDFA numbers:

Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
CFDA Number 16.738 - Anti-Drug Abuse Enforcement Program	
U.S. Department of Justice	\$ 338,928
State of California, Office of Emergency Services	740,323
	<u>\$ 1,079,251</u>
CFDA Number 93.778 - Medical Assistance Program (Medicaid: Title XIX)	
State of California, Department of Social Services	\$ 55,536,437
State of California, Department of Health Services	4,394,917
	<u>\$ 59,931,354</u>

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Note 10 – Homeland Security Cluster

The County is a recipient of 2005 and 2006, and 2007 Urban Areas Security Initiative (UASI) grant awards (CFDA No. 97.008). Per the 2008 *A-133 Compliance Supplement*, UASI grant awards for the specified grant years listed above are part of the Homeland Security Cluster. In addition, the County incurred federal expenditures under the Homeland Security Grant Program (HSGP) (CFDA No. 97.067), which are also part of the Homeland Security Cluster program. The following table summarizes these programs by CDFA numbers:

Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
CFDA Number 97.008 - Urban Area Security Initiative	
Passed through the City of San Jose	\$ 566,230
Passed through the City and County of San Francisco	245,865
Subtotal Urban Area Security Initiative	<u>812,095</u>
CFDA Number 93.067 - Homeland Security Grant Program	
Passed through the State Office of Emergency Services	<u>3,869,446</u>
Total Homeland Security Cluster	<u><u>\$ 4,681,541</u></u>

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Note 11 - Schedules of the Office of Emergency Services (OES), California Victims Compensation & Government Claims Board, and California Department of Justice grant expenditures

State of California Office of Emergency Services grant expenditures:

The following represents grant expenditures for Department of Justice grants passed through the State of California Office of Emergency Services for the fiscal year ended June 30, 2008.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
Victim Witness Assistance - OES	VW 07260430					
Operating Expenses	7/1/07 to 6/30/08	\$ 294,306	\$ 294,306	\$ -	\$ 294,306	\$ -
Total		\$ 294,306	\$ 294,306	\$ -	\$ 294,306	\$ -
Building Our Leaders for Tomorrow	US 05020430					
Operating Expenses	10/1/05 to 12/31/08	\$ 25,000	\$ 6,523	\$ -	\$ 6,523	\$ 18,477
Total		\$ 25,000	\$ 6,523	\$ -	\$ 6,523	\$ 18,477
Marijuana Suppression Program	MS 07060430					
Operating Expenses	7/1/07 to 6/30/08	\$ 177,169	\$ 177,169	\$ -	\$ 177,169	\$ -
Total		\$ 177,169	\$ 177,169	\$ -	\$ 177,169	\$ -
Anti-Drug Abuse Enforcement Program	DC 07180430					
Personal Services	7/1/07 to 6/30/08	\$ 167,739	\$ 167,739	\$ -	\$ 167,739	\$ -
Operating Expenses		322,646	322,646	-	322,646	-
Equipment		72,769	72,769	-	72,769	-
Total		\$ 563,154	\$ 563,154	\$ -	\$ 563,154	\$ -

(Note: The non-match expenditure of \$294,306, \$6,523, \$177,169, and \$563,154 for grants VW 07260430, US 05020430, MS 07060430, and DC 07180430, respectively, are reported as federal expenditures in the SEFA under the following CFDA numbers: 16.575, 16.609, and 16.738.)

The following represents the State of California Office of Emergency Services summary grant expenditures for the fiscal year ended June 30, 2008. This information is included in the County's single audit report at the request of the State of California's Office of Emergency Services.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
Victim Witness Assistance - OES	VW 06250430					
Personal Services	7/1/06 to 6/30/07	\$ 223,410	\$ -	\$ -	\$ -	\$ 223,410
Operating Expenses		124,889	6,579	-	6,579	118,310
Total		\$ 348,299	\$ 6,579	\$ -	\$ 6,579	\$ 341,720
Victim Witness Assistance - OES	VW 07260430					
Operating Expenses	7/1/07 to 6/30/08	\$ 348,299	\$ 332,487	\$ -	\$ 332,487	\$ 15,812
Total		\$ 348,299	\$ 332,487	\$ -	\$ 332,487	\$ 15,812
Child Abuser Vertical Prosecution Program	VB 07050430					
Personal Services	7/7/07 to 6/30/08	\$ 436,083	\$ 436,083	\$ -	\$ 436,083	\$ -
Total		\$ 436,083	\$ 436,083	\$ -	\$ 436,083	\$ -
High Technology Theft Apprehension & Prosecution	HT 06070430					
Personal Services	7/1/06 to 6/30/07	\$ 635,672	\$ -	\$ -	\$ -	\$ 635,672
Operating Expenses		1,793,213	10,776	-	10,776	1,782,437
Equipment		5,691	5,691	-	5,691	-
Total		\$ 2,434,576	\$ 16,467	\$ -	\$ 16,467	\$ 2,418,109

(Continued)

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Note 11 - Schedules of the Office of Emergency Services (OES), California Victims Compensation & Government Claims Board, and California Department of Justice grant expenditures (Continued)

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
High Technology Theft Apprehension & Prosecution	HT 07080430					
Personal Services	7/1/07 to 6/30/08	\$ 1,188,056	\$ 701,141	\$ 486,915	\$ 1,188,056	\$ -
Operating Expenses		1,238,144	1,238,144	-	1,238,144	-
Equipment		8,376	8,376	-	8,376	-
Total		<u>\$ 2,434,576</u>	<u>\$ 1,947,661</u>	<u>\$ 486,915</u>	<u>\$ 2,434,576</u>	<u>\$ -</u>
High Technology Theft Apprehension & Prosecution	HD 07070430					
Personal Services	7/1/07 to 6/30/08	\$ 232,695	\$ 176,505	\$ 56,190	\$ 232,695	\$ -
Operating Expenses		469,684	385,398	84,286	469,684	-
Total		<u>\$ 702,379</u>	<u>\$ 561,903</u>	<u>\$ 140,476</u>	<u>\$ 702,379</u>	<u>\$ -</u>

California Victims Compensation & Government Claims Board grant expenditures

The following represents the California Victims Compensation & Government Claims Board grant expenditures for the fiscal year ended June 30, 2008. This information is included in the County's single audit report at the request of the California Victims Compensation & Government Claims Board.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
Victim Witness Assistance - BOC	VCGC7059					
Personal Services	7/1/07 to 6/30/08	\$ 957,375	\$ 875,375	\$ -	\$ 875,375	\$ 82,000
Operating Expenses		173,738	155,738	-	155,738	18,000
Total		<u>\$ 1,131,113</u>	<u>\$ 1,031,113</u>	<u>\$ -</u>	<u>\$ 1,031,113</u>	<u>\$ 100,000</u>
Victim Witness Restitution for Crime Victims	VCGC7077					
Personal Services	7/1/07 to 6/30/08	\$ 176,211	\$ 176,211	\$ -	\$ 176,211	\$ -
Operating Expenses		2,050	2,050	-	2,050	-
Total		<u>\$ 178,261</u>	<u>\$ 178,261</u>	<u>\$ -</u>	<u>\$ 178,261</u>	<u>\$ -</u>
Santa Clara County Parole Advocacy program	PA06010430					
Operating Expenses	11/1/06 to 9/30/08	\$ 158,828	\$ 116,683	\$ -	\$ 116,683	\$ 42,145
Equipment		27,250	-	-	-	27,250
Total		<u>\$ 186,078</u>	<u>\$ 116,683</u>	<u>\$ -</u>	<u>\$ 116,683</u>	<u>\$ 69,395</u>

California Department of Justice grant expenditures:

The following represents the California Department of Justice grant expenditures for the fiscal year ended June 30, 2008. This information is included in the County's single audit report at the request of the California Department of Justice.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
Spousal Abuser Prosecution Program	07SA14B030					
Personal Services	7/1/07 to 6/30/08	\$ 64,816	\$ 44,400	\$ 20,416	\$ 64,816	\$ -
Other		57,680	57,680	-	57,680	-
Total		<u>\$ 122,496</u>	<u>\$ 102,080</u>	<u>\$ 20,416</u>	<u>\$ 122,496</u>	<u>\$ -</u>

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COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Qualified for CFDA No. 14.239
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Identification of major programs:	
CFDA No. 14.218	Community Development Block Grants/ Entitlement Grants
CFDA No. 14.239	HOME Investment Partnership Program
CFDA No. 93.558	Temporary Assistance for Needy Families (TANF)
CFDA No. 93.658	Foster Care – Title IV-E
CFDA No. 93.667	Social Services Block Grant
CFDA No. 93.778	Medical Assistance Program (Medicaid: Title XIX)
CFDA No. 93.959	Block Grants for Prevention and Treatment of Substance Abuse
CFDA No. 97.008/ 97.067	Homeland Security Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	No

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section II – Financial Statement Findings

Significant Deficiency #1 – Item 2008-A

Coordination of the County's Accounting Standard Implementations

The Santa Clara County Central Fire Protection District (Central Fire), a component unit of the County, engages another audit firm to complete its audit. Central Fire has a separate defined benefit postemployment healthcare plan from the County. Based on our review of the Central Fire's stand alone audited financial statements, we noted that the Central Fire did not implement Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, for the fiscal year ended June 30, 2008 along with the rest of the County. Although the County recorded its net other postemployment benefit obligations (OPEB) in accordance with GASB Statement No. 45 at June 30, 2008 for its employees covered by the defined benefit postemployment healthcare plan administrated by the Employee Services Agency, the County under reported the Central Fire's OPEB by approximately \$12 million.

The County should work with Central Fire and all of their other auditors in coordinating the accounting standards to be implemented and presented in their stand alone financial statements at least annually so that these statements meet the County's comprehensive financial reporting requirements. In addition, the County should review the stand-alone draft financial reports to ascertain whether the information provided for consolidation into the County's Comprehensive Annual Financial Report is prepared in accordance with the required standards.

Management Response from the Finance Department

We concur with the recommendation, and will develop a checklist to help staff review the audit reports of all component units for compliance with GASB requirements. We will discuss all new reporting requirements with our external auditors at the 'Entrance Conference' held in May each year and also communicate those requirements to our component units and their independent auditors. The Controller-Treasurer Department routinely monitors all GASB pronouncements for any new accounting and reporting requirements or changes to the existing standards. We communicate those requirements to the departments and component units on a periodic basis. In addition, we provide training and information on major GASB pronouncements to departments and component units at our quarterly fiscal officers' meetings. Annually, we communicate the upcoming deadlines for new GASB requirements to independent auditors of all component units. The new checklist and annual discussion with external auditors will enhance our ability to ensure the component units' are coordinated with the County in its compliance with all GASB reporting requirements.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section II – Financial Statement Findings (Continued)

Significant Deficiency #2 – Item 2008-B
Financial Reporting of Net Pension Asset

In May 2005, the State's Public Employees' Retirement System (PERS) agreed to restructure the County's pension contribution for the 2004-05 fiscal year-end and defer \$35 million of the scheduled payment. Since May 2005, interest in the amount of \$7.2 million has accumulated and was added to the liability. In fiscal year 2007-08, the County issued taxable pension funding bonds in order to refinance this obligation and to prepay other amounts arising from enhanced retirement benefits accruing to County employees totaling \$386.6 million.

During the fiscal year, the County did not reduce the deferred amount and cumulative accrued interest in the amount of \$42.2 million at June 30, 2008 against the prepayment of \$386.6 million, thereby overstating the County's net pension obligation and related net pension asset. This overstatement also caused the net pension asset amortization schedules to be incorrectly computed. As a result, an audit adjustment was recorded to reduce the County's obligation in the amount of \$42.2 million, reduce the net pension asset in the amount of \$29.7 million and increase net assets by \$12.5 million.

As the County enters into complex transactions, the Finance Agency staff should continue dialogue between affected parties (e.g., finance and benefits staff) and timely record these transactions in the accounting system to ensure accurate financing reporting.

Management Response from the Finance Department

We agree with the recommendation, and have already taken steps to improve communication among staff performing different aspects of certain complex financial transactions. For all future bond issuances, the debt administration staff will meet with the accounting and reporting staff to update on all pertinent financial aspects of the debt (issue or refunding) transaction upon completion of such transaction. This will ensure timely and accurate reporting of such transactions in the County's financial statements.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs

**Finding No. 2008-1 U.S. Department of Housing and Urban Development
CFDA No. 14.239 – HOME Investment Partnerships Program
Program Income**

Criteria:

Program income is gross income received that is directly generated by the federally funded project during the grant period, and includes payments of principal and interest on loans made with grant funds. In accordance with the Code of Federal Regulations Title 24 Housing and Urban Development, section 85.25 *Program Income*, program income shall ordinarily be deducted from total allowable costs to determine the net allowable costs and should be used for current costs unless the federal agency authorizes otherwise.

The U.S. Department of Housing and Urban Development (HUD) has also published Notice CPD 97-09 to provide guidance to HOME participating jurisdictions on the requirements governing program income. The notice specifies that participating jurisdictions must maintain records which adequately identify the source and application of their HOME funds (including program income) as part of the financial transactions of their HOME program, consistent with generally accepted accounting principles. Furthermore, program income must be used to the extent available before additional HOME allocation funds are drawn down. A participating jurisdiction may not draw down HOME allocation funds while allowing program income to accumulate in its local account.

Condition/Context:

During the performance of our testwork over this federal compliance requirement, we noted the County received program income in the amount of \$44,272 for payments of principal and interest on loans made with HOME grant funds. The County did not factor in the program income received during the fiscal year when it requested for draw down of HOME funds through the HUD's Integrated Disbursement and Information System (IDIS).

Effect:

The County is at risk of non-compliance with program income requirements.

Questioned Costs:

\$44,272

Recommendation:

HUD has designed the IDIS for participating jurisdictions to enter, maintain, and report on projects and activities for its Office of Community Planning and Development (CPD) grant programs. The County already uses IDIS to draw down HOME funds and to submit information in compliance with program requirements. The IDIS User Manual provides specific instructions on the IDIS program income process and identifies the various reports which can be generated. We recommend the County utilize IDIS to report the receipt of program income at reasonable periodic intervals such that program income is abated against subsequent drawdowns to ensure compliance with program income requirements.

Views of Responsible Officials and Planned Correction Plan:

The management agrees with the recommendation. Effective in FY09, OAH has implemented a procedure to enter HOME program income in IDIS quarterly and maintain a log of program income receipts to ensure it is used to the extent available before HOME funds are drawn down.

Corrective Action Plan Contact Person:

Neena Batallones, Accountant III, Office of Affordable Housing

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

**Finding No. 2008-2 U.S. Department of Health and Human Services
CFDA No. 93.778 – Medical Assistance Program (Medicaid: Title XIX)
Passed-through the State of California Department of Health Services
Passed-through the State of California Department of Social Services
Eligibility**

Criteria:

In accordance with OMB A-133, a grantee is responsible for documenting eligibility determinations. Under the Medical Assistance Program eligibility requirements, all forms used for eligibility determination should be properly documented, re-evaluated and approved.

Under Medical Assistance Program compliance guidelines, the County should document qualified alien status if the applicant or recipient is not a U.S. citizen (42 USC 1320b-7d) using the State of California Department of Health Services' MC-13 form. This form is used by eligibility workers to document the applicant's citizenship or immigration status declaration and verification of immigration status for non-citizens who claim satisfactory immigration status.

Condition/Context:

During the performance of our testwork over this federal compliance requirement, we noted that in two out of the forty cases tested (out of a population of 145,866), the County did not document the eligibility determination with a MC-13 form in the case file for these two non U.S. citizen applicants.

Effect:

The lack of documentation indicating the applicant's citizenship and immigration status may result in inadequate eligibility determinations, thus benefits could be disbursed to ineligible participants.

Questioned Costs:

Not applicable. The County was only responsible for assisting the State of California in determining eligibility and received reimbursements for administrative costs only. Direct Medi-Cal expenditures are not included in the SEFA.

Recommendation:

Not applicable. The County was only responsible for assisting the State of California in determining eligibility and received reimbursements for administrative costs only. Direct Medi-Cal expenditures are not included in the SEFA.

Views of Responsible Officials and Planned Correction Plan:

SSA agrees with the recommendation on the missing MC-13 forms for non-citizens. As part of our current application procedures, the MC-13 form is part of the Intake packet of forms given to the applicant when he/she submits a Medi-Cal application. These forms are reviewed and explained in detail with the applicant by the eligibility worker and all necessary forms are signed and scanned into our Integrated Document Management (IDM) system. An Agency Memorandum will be issued to all eligibility staffs, reminding them to obtain an MC-13 form for all non-citizen applicants and requiring supervisors to review all cases transferred to the Continuing Units to ensure the completed MC-13 forms are scanned into IDM. In addition, our Agency's Staff Development continues to offer training in various Medi-Cal topics, including the application requirements.

Corrective Action Plan Contact Person:

Tomás Dolcini, Application and Decision Support Manager, Social Service Agency.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

**Finding No. 2008-3 U.S. Department of Housing and Urban Development
CFDA No. 14.239 – HOME Investment Partnerships Program
Special Tests & Provisions – Housing Quality Standards**

Criteria:

Under the requirements of the Single Audit Act and OMB Circular A-133, the participating jurisdiction has the responsibility to comply with the Housing Quality Standards inspection requirements. During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the County, as the participating jurisdiction, must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than:

- Every three years for projects containing 1 to 4 units;
- Every two years for projects containing 5 to 25 units; and
- Every year for projects containing 26 or more units.

The County must also perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards and to assure that any needed repairs are completed timely.

Condition/Context:

During the performance of our testwork over this federal compliance requirement, we noted that out of the 9 projects tested (out of a population of 29 projects), the Office of Affordable Housing (OAH) did not perform the housing quality inspection performed for 8 projects within the required timeframe. Subsequent to the required timeframe, the OAH has performed and completed housing quality standards inspection on all 8 projects in question.

Effect:

Non-compliance with housing quality requirements should result in immediate corrective action by the borrower. Continued non-compliance by the borrower after notification by the County may potentially result in the calling of the HOME funded loan. In addition, should HUD determine that the County has not met its burden in verifying continued compliance in the HOME program it may possibly result in increased oversight by HUD and reduced annual allocation of HOME funding for future projects.

Questioned Costs:

Not applicable, as the County has subsequently performed and completed the housing quality standards inspection on all 8 projects in question.

Recommendation:

We recommend the OAH evaluate and reinforce existing procedures over housing quality inspections to ensure timely inspections. Adequate controls should include procedures to proactively identify and track inspection due dates ensuring that on-site inspections are scheduled in advance of the due dates to allow sufficient time for the site reviews. In addition, procedures should be implemented to obtain approved deadline extensions for instances when inspections are expected to be delayed. The approved extensions should be documented within the inspection files to demonstrate compliance with program requirements.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2008-3 (Continued)

Views of Responsible Officials and Planned Correction Plan:

OAH concurs with the recommendation. OAH now understands that inspections are required within the calendar from the prior inspection rather than by fiscal year.

OAH has revised its existing procedures for Housing Quality Inspections to ensure timely inspections are completed. The revised procedures included adequate controls which identify and track inspection due dates to ensure on-site inspections are scheduled in advance of the due dates to allow sufficient time for the site reviews. When an unforeseeable need for a deadline extension occurs, OAH will obtain the extension from HUD and document in the contract file to ensure that the County is in compliance with program requirements.

Corrective Action Plan Contact Person:

Angelina McCormick, Senior Management Analyst, Office of Affordable Housing

**Finding No. 2008-4 U.S. Department of Homeland Security
CFDA No. 97.008/97.067 – Homeland Security Cluster
Passed-through the City of San Jose
Passed-through the City and County of San Francisco
Passed-through the State of California Office of Emergency Services
Subrecipient Monitoring**

Criteria:

In accordance with OMB Circular A-133, grantees are required to ensure that subrecipients who ultimately expend \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period. The grantee is further required to issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition/Context:

During the performance of our testwork over this federal compliance requirement, we noted the Office of Emergency Services (OES) obtained and reviewed the subrecipients' invoices and supporting schedules before disbursing reimbursement funds to the subrecipients. However, the OES did not require its subrecipients receiving pass-through funding to submit single audit reports. The County did not identify the subrecipients in which single audits are performed, obtain and review the most recent single audit reports to determine if the subrecipients had a completed audit within the required time frame, nor ascertain if these subrecipients had findings or questioned costs related to the grants provided.

Effect:

The County is not in compliance with Subrecipient Monitoring requirements.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2008-4 (Continued)

Questioned Costs:

None, as the OES has obtained and reviewed the subrecipients' invoices and supporting schedules before disbursing reimbursement funds to the subrecipients.

Recommendation:

The OES should develop procedures to identify and determine which subrecipients are required to have a single audit, ensure that the subrecipients are audited within 9 months of the end of the subrecipient's audit period, and acquire the single audit reports from its subrecipients. In addition, the OES should follow up on any findings that arise as a result of these audits within 6 months after receipt of the subrecipient's audit report and take timely and appropriate corrective action on all related audit findings.

Views of Responsible Officials and Planned Correction Plan:

OES concurs that the County has responsibility as a grantee for monitoring subrecipient single audits, pursuant to OMB Circular A-133.

OES has requested copies of single audit reports from all subrecipients who expended (received) \$500,000 or more in Federal grant funds for FY 2008 subsequent to year-end. Staff is in the process of review to determine if there are any findings related to Homeland Security Grant expenses. If there are any pertinent findings, OES will follow up with the subrecipients to monitor if appropriate corrective actions were made in a timely way.

Beginning with FY 2009:

1. The County will establish a procedure to identify which subrecipients are subject to single audit requirements. Procedure development will include consideration of options such as adding a clause in each MOU to submit a Single Audit report to OES if total federal grant funds exceed \$500,000 during a fiscal year.
2. All such subrecipients will be required to provide a copy of the single audit report performed within 9 months of the end of the audit period to the OES Grants Program Manager. Copies of all reports will be maintained in County Homeland Security Grant program files.
3. If any findings have been made, relating to Homeland Security Grant expenses, for any subrecipient, the OES Grants Program Manager will follow up within 6 months of receipt of the single audit report, and take timely and appropriate corrective actions

Corrective Action Plan Contact Person:

Diane Stambaugh, Grants Program Manager, Santa Clara County Office of Emergency Services.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

**Finding No. 2008-5 U.S. Department of Health and Human Services
CFDA No. 93.558 - Temporary Assistance for Needy Families (TANF)
Passed-through the State of California Department of Social Services
Special Tests & Provisions –
Child Support Non Cooperation, Penalty for Refusal to Work**

Criteria:

In accordance with OMB Circular A-133, a grantee is responsible for determining and documenting eligibility determinations. Specifically, the County is required to:

- Terminate or reduce assistance by at least 25 percent for child support non-cooperation;
- Reduce or terminate assistance for refusal to work subject to any good cause or exemption, such as unavailability of appropriate child care for an adult single custodial parent caring for a child under the age of six.

The County has established policies and procedures to send out a notice of action (NOA) to participants who do not cooperate with child support or who refuse to work at least ten days before the effective date of the County imposing a sanction on the participants' benefits.

Condition/Context:

During the performance of our testwork over these federal compliance requirements, we noted the following:

- *Child Support Non Cooperation* – Two out of the forty cases tested (out of a population of 105 fiscal year 2008 cases) that had benefits reduced or terminated did not have a notice of action form in the case file.
- *Penalty for Refusal to Work* – One out of the forty cases tested (out of a population of 12,845 cases) that had benefits reduced did not have a notice of action form in the case file.

Effect:

The County is not in compliance with the Special Tests & Provisions compliance requirement. This may potentially allow the continuation of funding or over-funding to ineligible individuals.

Questioned Costs:

None, the County reduced or terminated the benefit payments for the cases noted above.

Recommendation:

We recognize that the Social Services Agency (SSA) has provided additional instructions to staff on steps to follow to ensure that the County is in compliance with the Federal and State regulations. We recommend the County continue to offer supplemental trainings so that its caseworkers could improve on their awareness of the regulations. Management should continue to strengthen control ensuring that all cases information is documented as required.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2008-5 (Continued)

Views of Responsible Officials and Planned Correction Plan:

SSA agrees with the above recommendations. SSA continues to provide training on a regular basis on client rights and responsibilities, as stated in the Santa Clara County CalWORKs Handbook of Policy and Procedures, which include the right to a 10-day Notice of Action (NOA) prior to a decrease or termination of benefits. In addition, our internal corrective action team reviews cases randomly for specific items and the 10-day NOA for child support non-cooperation and Welfare-to Work sanctions are among the items in their review. When an error is identified, the worker is instructed to take the necessary corrective actions and provide verification of the corrective action taken within a specified amount of time. A County Memorandum is also being issued by Management as a reminder to staff of the existing regulations and the 10-day NOA requirement.

Corrective Action Plan Contact Person:

Maria Candy Savin, CalWORKs Program Coordinator, Social Service Agency.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2008

Federal Award Findings

Reference Number: 2007-1

Federal Catalog Number: U.S. Department of Housing and Urban Development
14.218 Community Development Block Grants/Entitlement Grants
14.239 HOME Investment Partnerships Program

Audit Finding: Reporting
The County did not complete the Form HUD 60002, Section 3 Annual Summary Report as required by 24 CFR Sections 135.3(a), 135.90, and 570.607 for the Community Development Block Grant and the HOME Investment Partnerships Program. The County has not attended recent trainings provided by U.S. Department of Housing and Urban Development (HUD) and as such did not realize that they were required to complete a separate annual report because the County was a prime recipient of funds over \$200,000 that involved housing rehabilitation, housing construction or other public construction.

Status of Corrective Action: Appears corrected based on our testing of the programs in the current year.

Reference Number: 2007-2

Federal Catalog Number: U.S. Department of Health and Human Services
Passed through the State of California, Department of Social Services
93.658 – Foster Care_Title IV-E

Audit Finding: Eligibility

- 4 participant files did not have a Form FC 2 completed during fiscal year 2007, thus not meeting the required twelve-month eligibility re-determination requirement.
- 4 participant files had Form FC 2 completed after the required due date during fiscal year 2007, thus not meeting the required twelve-month eligibility re-determination requirement.
- 1 participant file did not have a complete Form SOC 815 on file.

Status of Corrective Action: Appears corrected based on our testing of the program in the current year.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2008

Reference Number:	2007-3
Federal Catalog Number:	U.S. Department of Health and Human Services Passed through the State of California, Department of Social Services 93.658 – Foster Care_ Title IV-E
Audit Finding:	Reporting The 3 monthly CA-237 reports selected for testing ranged from 2 to 9 days late and 1 out of 3 monthly CA-800 reports selected for testing was filed 20 days after the due date.
Status of Corrective Action:	Appears corrected based on our testing of the program in the current year.
Reference Number:	2007-4
Federal Catalog Number:	U.S. Department of Health and Human Services Passed through the State of California, Department of Social Services 93.558 - Temporary Assistance for Needy Families
Audit Finding:	Allowable Costs/Cost Principles Out of a sample size of 35, 5 employees did not have an approving signature from the department supervisor on the time cards. Without adequate internal controls over the approval of time entry, cash payments to the employees could not be readily verified as authorized.
Status of Corrective Action:	Appears corrected based on our testing of the program in the current year.